

Message Text

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ACTION EB-07

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FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 948

INFO AMEMBASSY TOKYO

AMEMBASSY TAIPEI

AMCONSUL HONG KONG

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HONG KONG FOR REGFINATT

E.O. 11652: N/A

TAGS: EGEN EFIN, ETRD, KS

SUBJECT: PROJECTIONS FOR KOREAS FOURTH FIVE YEAR PLAN REVISED
 UPWARD

SUMMARY: REVISED PROJECTIONS FOR KOREAS FOURTH FIVE YEAR PLAN
(1977-81) ESTIMATE AVERAGE REAL GROWTH OF 9.2 PERCENT PER YEAR.
EXPRESSED IN CURRENT PRICES, THE REVISED PROJECTIONS ANTICIPATE
EXPORTS OF \$20.2 BILLION AND PER CAPITA GNP OF \$1,512 IN 1981.
END SUMMARY.

1. PROMPTED BY THE FACT THAT 1976 ECONOMIC PERFORMANCE IS
FAR EXCEEDING ORIGINAL PLANNING ASSUMPTIONS, THE ROKG
ECONOMIC PLANNING BOARD (EPB) HAS RELEASED REVISED TAGETS
AND PROJECTIONS FOR KOREA'S FOURTH FIVE YEAR PLAN (1977-81)
EMPLOYING MORE REALISTIC BASE YEAR 1976 ESTIMATES. THESE
PROJECTIONS REPLACE THE ORIGINAL SET OF FIGURES RELEASED IN
JUNE OF THIE YEAR. THE BORAD OUTLINES OF THE PLAN REMAIN THE
SAME WITH THE REVISIONS LARGELY REFLECTING THE APPLICATION
OF THE SAME REAL GROWTH RATES TO REVISED BASE YEAR ESTIMATES.

2. AVERAGE ANNUAL REAL GNP GROWTH OVER THE PLAN PERIOD IS
OW PROJECTED TO BE 9.2 PERCENT INSTEAD OF 9 PERCENT TO TAKE
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INTO ACCOUNT FORECASTED 10 PERCENT GROWTH FOR 1977. HOWEVER,

THE STARTING POINT IS NOW A 1976 GNP FIGURE OF \$21.6 BILLION IN CONSTANT 1975 PRICES AND \$24.8 BILLION IN 1976 PRICES. THIS NEW GNP ESTIMATE REFLECTS THE REVISED REAL GROWTH RATE OF 8.3 PERCENT FOR 1975 (INSTEAD OF 7.4 PERCENT) AND AN ESTIMATED REAL GROWTH OF 15 PERCENT WITH A GNP DEFLATOR OF 15 PERCENT FOR 1976 (INSTEAD OF 8 PERCENT WITH A GNP DEFLATOR OF 15 PERCENT). THE ENTIRE COMBINATION, WITH AN ASSUMED ANNUAL AVERAGE 8.8 PERCENT GNP DEFLATOR FOR 1977-81, PRODUCES NOMINAL GNP OF \$58.7 MILLION, IN 1981, EQUATING TO PER CAPITA GNP IN 1971 PRICES OF \$1,512 AS COMPARED TO THE \$1,284 FIGURE COMPUTED IN THE JUNE FIGURES. 1976 PER CAPITA GNP IS NOW ESTIMATED AS \$692 IN CURRENT PRICES. THESE PROJECTIONS USE THE CURRENT 484 WON/\$1 EXCHANGE RATE THROUGHOUT INSTEAD OF THE 500WON/\$1 EXCHANGE RATE USED FOR CONVENIENCE IN COMPUTATION IN THE EARLIER SET OF FIGURES.

3. PROJECTED REAL GROWTH RATES FOR EXPORTS AND IMPORTS REMAIN AT 16 PERCENT AND 12 PERCENT RESPECTIVELY WITH THE GROWTH RATE FOR EXPORTS FORECAST AS DECLINING FROM 22.2 PERCENT IN 1977 TO 11.5 PERCENT IN 1981 WHILE GROWTH IN REAL IMPORTS SLOWS FROM 15.1 PERCENT TO 10.0 PERCENT OVER THE SAME PERIOD. EXPRESSED IN CONSTANT 1975 PRICES, THE VISIBLE TRADE ACCOUNT MOVES OUT OF DEFICIT IN 1980 AND YIELDS A SURPLUS OF \$339 MILLION IN 1981. A SURPLUS ON CURRENT ACCOUNT OF \$192 MILLION FIRST APPEARS IN 1981.

4. COMMODITY EXPOTS IN CURRENT MARKET PRICES, INCLUDING PRICE INFLATION OF 12 PERCENT IN 1976 AND 5 PERCENT A YEAR THEREAFTER, ARE FORECASTED TO REACH \$20.2 BILLION IN 1981. WITH THAT EXCEPTION, OFFICIAL PLANNING DOCUMENTS RELEASED SO FAR DO NOT ATTEMPT TO TRANSLATE THE FORECASTED BALANCE OF PAYMENTS TABLES INTO CURRENT PRICES. HOWEVER, ASSUMING PRICE INFLATION FOR IMPORTS OF 4 PERCENT IN 1976, 8 PERCENT IN 1977 AND 5 PERCENT THEREAFTER AND INFLATION OF 5 PERCENT PER ANNUM FOR OTHER CURRENT ACCOUNT ITEMS - ASSUMPTIONS ROKG PLANNING OFFICIALS HAVE BEEN USING, THE CURRENT ACCOUNT MOVES INTO SURPLUS IN 1979, WITH THE SURPLUS RISING TO \$1.2 BILLION BY 1981. EVEN THOSE FIGURES ARE SOMEWHAT OF AN UNDER-ESTIMATE GIVEN THE ABOVE ASSEPTIONS, SINCE THE STARTING POINT IS EPB'S STILL VERY CAUTIOUS ESTIMATE OF 1976 CURRENT ACCOUNT

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PERFORMANCE BUILT AROUND PROJECTED EXPORTS OF \$1,560 MILLION, IMPORTS OF \$8,155 MILLION, F.O.B., AND A CURRENT ACCOUNT DEFICIT OF \$735 MILLION. THE ACTUAL DEFICIT IN 1976 IS EXPECTED TO BE MORE LIKE \$200 MILLION.

5. EMBASSY BELIEVES GNP PROJECTIONS ARE A REASONABLE MINIMUM, AND PERHAPS SLIGHTLY ON THE LOW SIDE, PROVIDED THERE IS NO SIGNIFICANT DETERIORATION IN THE INTERNATIONAL ECONOMY FOR THE

REMAINDER OF THE DECADE. AS NOTED ABOVE, WE ALSO BELIEVE
BALANCE OF PAYMENTS PROJECTIONS ARE TOO CAUTIOUS. IF, IN
FACT, LARGE CURRENT ACCOUNT SURPLUS BEGINS TO APPEAR BY THE END
OF THE DECADE, WE WOULD EXPECT ROKG TO ADOPT POLICIES TO
ACCELERATE IMPORTS AND PERHAPS LIBERALIZE DOMESTIC CONSUMPTION.

6. SUMMARY TABLES OF THE REVISED PROJECTIONS TO FOLLOW
BY POUCH.

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